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Subject:	FW: WSJ: Deeper Slowdown Suspected in China

Deeper Slowdown Suspected in China

By TOM ORLIK And AARON BACK

BEIJING—Official data due this week are expected to show growth in China slowing to its lowest rate since the global financial crisis. But some economists say they are turning up evidence that the true picture could be even worse.

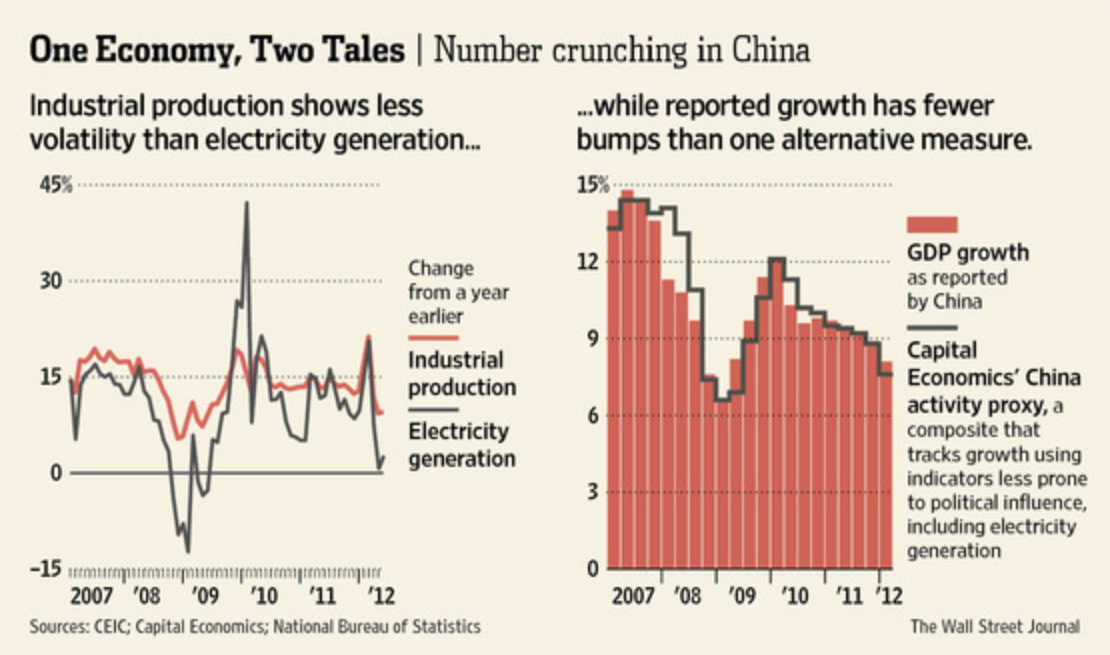
China's National Bureau of Statistics is scheduled to report second-quarter gross domestic product growth on Friday, and according to a Dow Jones poll of 15 economists, it is likely to show the country's economy grew by 7.6% from a year earlier. That is down from 8.1% growth in the first quarter, and the slowest pace since the first quarter of 2009.

Coming hard on the heels of a weak jobs report in the U.S in June, and fading business sentiment in European economic powerhouse Germany, fresh evidence of slowing growth in the world's second-largest economy would be a further blow to an already fragile global recovery. If, as some economists suspect, growth is even slower than the official data suggest, that would compound fears that China is poorly placed to help lift the world economy out of its slump.

Economists have responded to long-standing doubts about the reliability of official data by constructing their own indexes of China's growth. Typically these are based on measures such as electricity production, rail freight and real-estate construction that should track growth closely but are regarded as less prone to political interference.

London-based research firm Capital Economics created its own index during the last major downturn during the 2008-09 crisis. "We created a proxy of Chinese economic activity in order to answer doubts about the data, somewhat to our surprise it generally runs in proximity to the official numbers," said Mark Williams, an economist at the firm. "But particularly at the beginning of this year they began to diverge. So doubts about the quality of the data are justified."

Capital Economics's proxy indicator suggests that China's economy grew by around 7.6% in the first quarter of this year, half a percentage point lower than the official GDP figure.



Similar results reached by other analysts have led some to suspect that the data are "smoothed" and become less reliable during periods of rapid slowdown or strong growth—times when the margin for error in calculating the true rate of growth also may be higher.

Friday's numbers will be underpinned by a new approach to collecting data on industrial output, a key measure of China's growth, accounting for about half of GDP.

Under the new approach, in place since February, China's biggest 700,000 enterprises report data directly to the NBS over the Internet. That replaces a system where many reported to local statistics offices, and information was then transmitted from town, to city, to province and to national levels.

The latest approach is intended to overcome one of the main flaws in China's data system—exaggeration of the growth rate by ambitious local officials. A notice on the National Bureau of Statistics website in February announcing the change called on businesses to "submit data independently, resisting any attempts at interference."

That warning to avoid interference may have been prescient. A report in the Chinese press in April, reproduced on the NBS website, cited many instances of abuse of the new system, with some local officials requiring businesses to co-ordinate with local statistical offices before reporting their data, effectively reintroducing the possibility of political interference.

Responding to the reports of abuse in an April statement, Ma Jiantang, the head of the NBS, said "there are still a few low-level officials that are ignoring the statistics law and the statistics system, using overt and covert devices, to interfere with the independent and authentic reporting of data by businesses."

Recently, doubts have been raised that electricity-production data—widely viewed as a reliable proxy for China's growth, also may be subject to political interference, with suspicion that local leaders may be encouraging power producers to exaggerate growth rates.

Standard Chartered economist Stephen Green thought concerns over the electricity data were serious enough to warrant a switch to a new proxy for growth—demand for gas and diesel. This replacement indicator, though, still suggests "sluggish growth rather than recession," he wrote in a recent note, similar to the story told by the official GDP data.

Others believe fears of exaggeration in the electricity data—which registered a dismal 2.7% year-over-year growth rate in May—are overstated. Power generation is dominated by five major state-owned companies in China, which together account for just over half of total electricity output—reducing the scope for local officials to distort the data.

Mr. Lu, manager at a power plant in eastern China, a unit of the state-owned China Guodian Corp., said the plant's output data are transmitted automatically by a computer system to the local municipal statistics bureau. "We need to make daily, monthly and annual reports," he said. "There is no way to falsify this."

Incentives for local leaders may be aligned against exaggerating electricity output. "They have little incentive to over-report use of energy, including electricity, as Beijing imposes increasingly restrictive regulations on energy use per unit of GDP on local governments," said Bank of America Merrill-Lynch economist Lu Ting in a note.

—Yoli Zhang
contributed to this article

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